

Summary of Repatriated Dividend Study

Melissa Redmiles
Melissa.A.Redmiles@IRS.gov

Overview

- Description of the new law
- Data sources and limitations
- Statistics
 - by industry of filer
 - by country of incorporation and industry of distributing controlled foreign corporations (CFC's)

What is the One-Time Dividend Received Deduction?

- 85% deduction of qualifying dividends received from CFC's
 - CFC –a corporation in which U.S. shareholders own more than 50% of the voting power or stock value
- Claimed once for a tax year ending between 10/22/2004 and 10/22/2006
- Must be used to fund permitted domestic investments

What Are Qualifying Dividends?

- “Extraordinary” —amount exceeding average distributions over five year period
- Capped—at the greater of permanently invested foreign earnings or \$500 million
- Earmarked for approved investments—as outlined in a domestic reinvestment plan (DRP)
- Excludes debt increase—with some exceptions

Data Sources and Limitations

- All returns from SOI's corporation sample reporting dividend deduction
 - Excludes audit adjustments and amended returns
 - Subject to sampling error
- Weighted to reflect population
 - 784 returns weighted to reflect 843 corporations

Determination of the Characteristics of the CFC's Distributing the Dividends

- Matched by name to 2004 Form 5471 file
- Large dividends from unknown or missing CFC's
 - matched to current year Form 5471
 - matched to Form 1118, Schedule C
 - requested from taxpayers

Statistics

- 843 corporations repatriated \$362 billion
 - \$312 billion qualified for the deduction
 - \$265 billion deducted
 - Compared to \$804 billion of accumulated, non-taxable E&P for all CFC's for Tax Year 2004

- ◆ Mostly large corporations repatriating substantial amounts
 - \$24 billion in average total assets
 - Average cash dividend of \$429 million
 - Average qualifying dividend of \$370 million

Repatriated Dividends, By Major and Selected Minor Industries

(Money amounts in billions of dollars)

Major Industry	Number of Returns	Cash Dividends	Qualifying Dividends	Percentage of Total Qualifying Dividends
All industries, total	843	\$361.9	\$312.3	100%
Manufacturing	465	289.4	252.3	81
Computer/ electronic equipment	85	68.6	57.5	18
Pharmaceutical and medicine	29	105.5	98.8	32
Wholesale and retail trade	133	14.7	12.9	4
Information	49	14.6	13.2	4
Finance, insurance, real estate, rental & leasing	49	13.3	11.9	4
All other industries	147	29.8	22.1	7

Average Assets and Repatriated Dividends, By Major and Selected Minor Industries

(Money amounts in millions of dollars)

Major Industry	Average Total Assets	Average Cash Dividends	Average Qualifying Dividends	Qualifying Dividends as a % of Cash Dividends
All industries, total	24,003.8	\$429.3	\$370.5	86%
Manufacturing	12,744.8	622.4	542.5	87
Computer/ Electronic Equipment	4,950.9	806.7	676.3	84
Pharmaceutical and Medicine	27,187.7	3,638.0	3,406.2	94
Wholesale and retail trade	2,320.4	110.5	96.7	87
Information	24,692.1	297.7	269.4	91
Finance, insurance, real estate, rental & leasing	71,553.1	271.9	243.2	89
All other industries	63,158.3	202.9	150.3	74

Repatriated Dividends, by Major and Selected Minor Industry of Distributing CFC

(Money amounts are in billions of dollars)

Major Industry	Number of CFC's	Cash Dividends	Qualifying Dividends	Percentage of Total Qualifying Dividends
All industries, total	4,246	\$361.9	\$312.3	100%
Manufacturing	1,361	168.8	156.5	50
Pharmaceutical and medicine	103	88.1	84.9	27
Wholesale and retail trade	739	23.1	16.6	5
Finance, insurance, real estate, rental & leasing	386	20.8	16.6	5
Bank or other holding companies	509	97.7	82.6	27
All other industries	1,251	51.5	40.0	13

The Effect of the Limitations

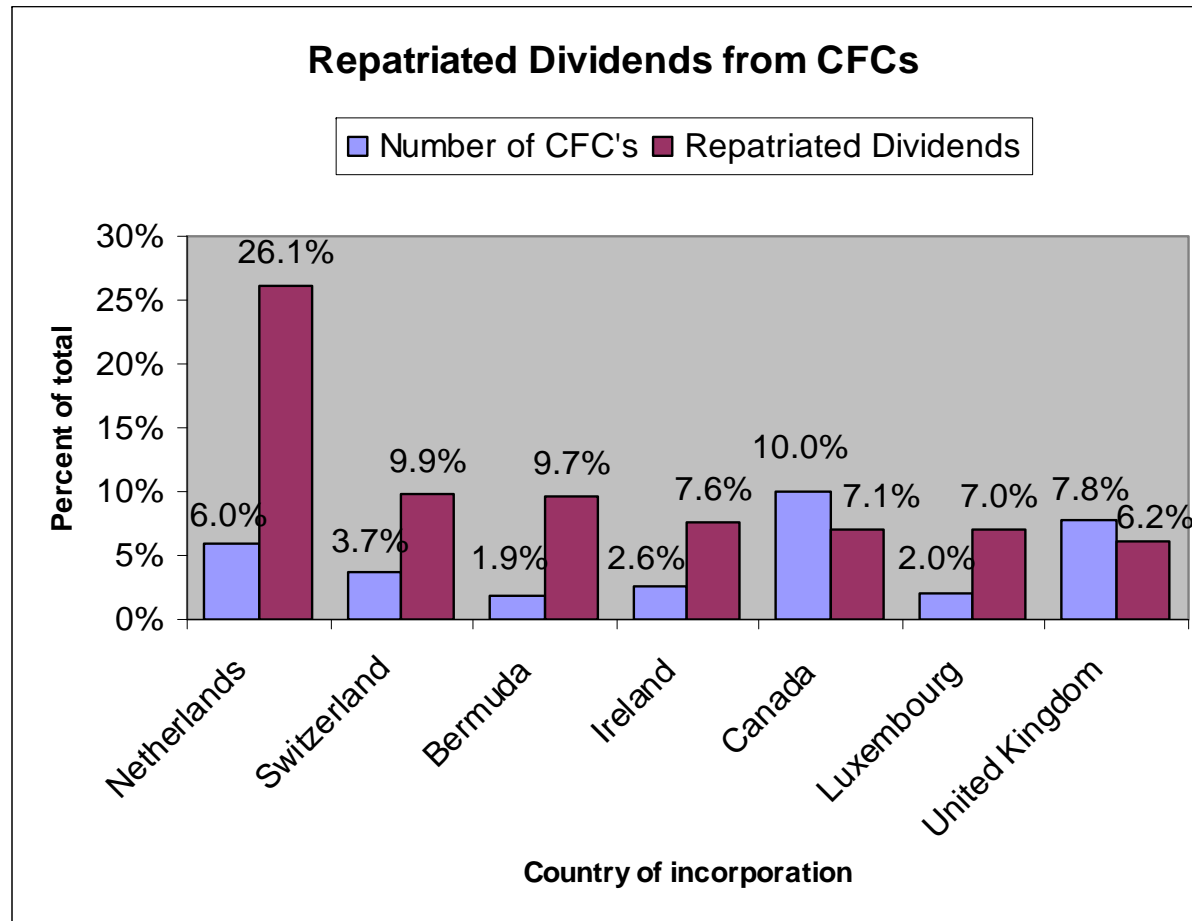
- 1) “Extraordinary”
 - 473 corporations (56%)
 - \$34 billion of total average base distributions
- 2) \$0.5 billion or foreign earnings cap
 - 38 corporations (5%)
- 3) Invested per Domestic Reinvestment Plan
 - 175 corporations (21%)
 - \$14.6 billion under extraordinary dividends
- 4) Increased debt
 - 53 corporations (6%)
 - \$0.2 billion

When Will the Investment Be Completed?

Planned Completion Dates for Reinvestment

Completion Date for Investment	Number of Returns	Percentage of Total
Total	843	100%
By end of 2006	419	50
By end of 2007	171	20
By end of 2008	75	9
By end of 2009	97	12
After 2009	51	6
Not specified	31	4

Percentage of Repatriated Dividends, by Country of Incorporation of Distributing CFC



Number of Returns and Average Repatriated Dividends, By Select Countries

(Money amounts in millions of dollars)

Country	Number of Returns	Average Cash Dividends	Average Qualifying Dividends	Qualifying Dividends as a % of Cash Dividends
All returns, total	843	\$429.3	\$370.5	86%
Bermuda	47	744.1	676.6	91
Luxembourg	40	636.0	586.7	92
Netherlands	149	633.7	603.4	95
Switzerland	78	458.7	415.7	91
Ireland	68	405.7	376.2	93
United Kingdom	206	114.2	81.7	72
Canada	244	104.7	87.9	84

“Cherry Picking” Effect

Percentage of Cash Dividends Qualifying for the Deduction, by Country of Incorporation¹

Top Ten Countries		Lowest Ten Countries	
Singapore	98%	Brazil	52%
Malaysia	98	Philippines	51%
Netherlands	95	Italy	43%
Hong Kong	94	South Korea	42%
Cayman Islands	93	Argentina	36%
Ireland	93	South Africa	33%
Luxembourg	92	Taiwan	28%
Bermuda	91	Colombia	27%
Switzerland	91	India	27%
Sweden	90	Japan	10%

¹ Does not include countries with low number of CFC's

Revised Foreign Tax Credit

- \$5 billion of foreign taxes attributed to nondeductible portion of qualifying dividends
- 168 taxpayers reduced their foreign tax credit by \$3.2 billion (6.5%) due to additional limitation

Summary of Findings

- \$362 billion was repatriated
- Nearly 1/3 brought home by pharmaceutical companies
- CFC's engaged in pharmaceutical or medicine manufacturing or defined as a bank holding or other holding company accounted for over half of the cash dividends
- Over 1/4 distributed from CFC's incorporated in the Netherlands
- Percentage of cash dividends qualifying for the deduction varied greatly by distributing country